FDIC State Profile

Summer 2005

Kentucky

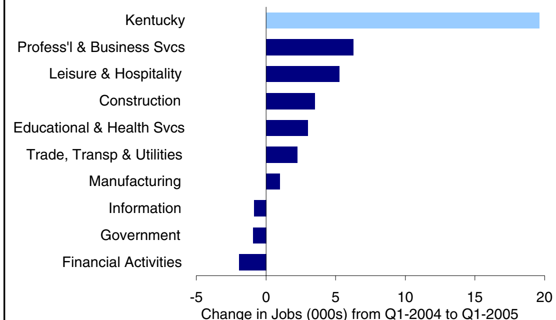
Kentucky employment conditions continue to improve.

- Kentucky added 19,600 new jobs, or 1.1 percent, from first quarter 2004 to first quarter 2005. The year-over-year employment growth rate lagged the national rate of 1.6 percent; however, first quarter results were the best reported since prior to the 2001 recession.
- The professional and business services, leisure and hospitality, and construction sectors produced 77 percent of the new jobs (See Chart 1).
- About 40 percent of the employment gains in the professional business services sector were concentrated in the **Lexington** metropolitan area, which saw an increase in its total nonfarm payroll employment of 1.4 percent compared with one year ago.
- Notably, first quarter 2005 marked the first time since third quarter 2000 that Kentucky's manufacturing sector posted year-over-year job gains. The sector, which employs 15 percent of total payroll employees, added about 1,000 jobs during the past four quarters. Durable good producers hired 3,200 new workers, while nondurable manufacturers shed 2,300 jobs during this period.
- Recommended military base closures could be a "mixed bag" for Kentucky as the state could lose more than 5,300 military jobs but also could gain slightly less than 1,500 civilian jobs. The vast majority of the military job losses would occur at the Fort Knox facility.

Household conditions remain stable.

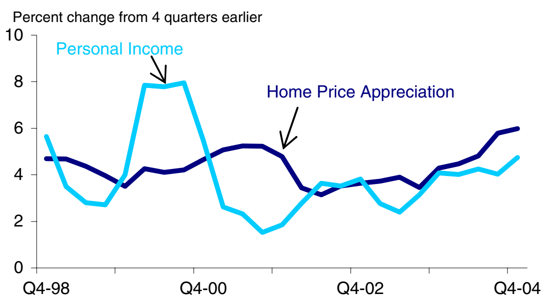
- Statewide home prices continued to increase slower than the nation, and the appreciation gap between the state and nation has increased for more than a decade. In addition, per capita personal income growth remained moderate and in line with the national average.
- Kentucky's per capita income continued to grow at a similar rate to home price appreciation (See Chart 2). A lower cost of living compared with the nation, combined with improving employment conditions and rising personal income, should contribute to stable housing conditions in the state.

Chart 1: Most Sectors Experienced Job Gains in Kentucky



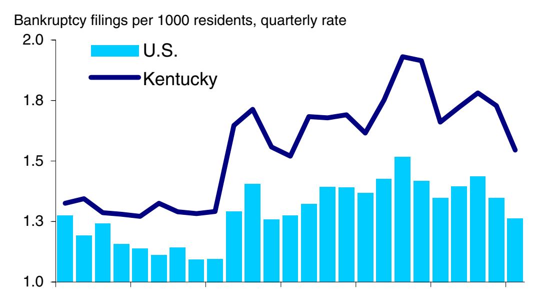
Source: Bureau of Labor Statistics

Chart 2: Kentucky Incomes Grew in Step with Home Price Appreciation



Sources: Office of Federal Housing Enterprise Oversight; Bureau of Economic Analysis

Chart 3: Kentucky Closing the Gap in Bankruptcies



Source: Administrative Office of the U.S. Courts

- The number of single-family housing permits granted in first quarter 2005 continued to fall from the prior quarter, and the number had been declining since early 2004; a situation that suggests demand for new home construction could be abating.

- Kentucky's per capita personal bankruptcy rate remains high, relative to the nation. However, signs of improving household conditions are evident as the gap between state and national bankruptcy rates declined from the high recorded in 2003 (See Chart 3).

Community institution performance remains relatively stable.

- Profitability at Kentucky's community institutions increased slightly in the first quarter of 2005 relative to one year ago.[1] Increases in net interest income and security gains contributed to the improved return on assets (ROA) and offset a modest increase in noninterest expense (See Table 1).

- The net interest margin grew 5 basis points from the previous year to 3.95 percent for the first quarter at March 2005 because the yield on earning assets increased by more than the cost of funding. Both the asset yield and cost of funds had been declining throughout much of the past two years.

- Kentucky's community institutions cost of funds is among the highest in the country at 1.9 percent for the first quarter 2005. Noncore funding growth continued to outpace core deposit growth during each of the past four quarters.

Adjustable rate mortgages (ARMs) are increasingly popular.

- Consistent with a national trend, Kentucky borrowers increasingly opted for ARMs during the past two years despite the fact that the fixed rate for a 30-year mortgage has been flat since 2003 and near historic lows (See Chart 4). More investment purchases of homes and an increasingly mobile work force that contemplates frequent relocations may be contributing to an increased use of ARMs.

- Although the number of borrowers that prefer ARMs to finance home purchases has increased, the concentration of 1-4 family ARMs to total loans has not increased significantly over the past two years. For those insured Kentucky institutions with ARMs portfolios, the median concentration of first lien 1-4 family ARMs as a percent of total loans increased from 17.4 percent two years ago to 18.5 percent as of first quarter 2005.

[1]Community institutions are insured institutions with less than $1 billion in assets, excluding new (less than three years old) and specialty banks. Data adjusted for merger activity.

Asset quality improved across most loan categories for community institutions.

- Delinquency rates declined 26 basis points over the past year to 2.2 percent. Most major loan categories saw improvement with minor increases noted for others (See Chart 5).

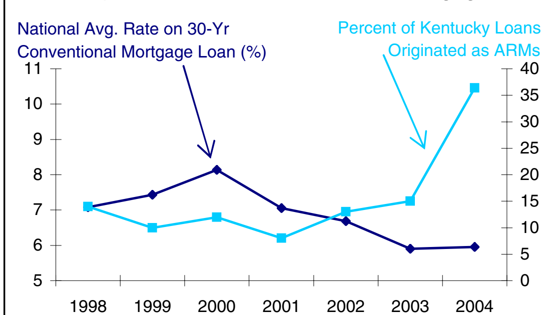
- The net charge-off rate declined for most major loan categories over the past year, with only a slight increase for 1-4 family mortgages and no change for construction loans.

Table 1: Earnings Performance Remained Stable at Kentucky's Community Institutions

Income statement contribution (percent of average assets)	3 months ended March 31		Percentage Point Change
	2004	2005	
Net Interest Income	3.59	3.64	0.05
Noninterest Income	0.83	0.84	0.01
Noninterest Expense	-2.89	-2.93	-0.04
Provision Expense	-0.18	-0.19	-0.01
Security Gains & Losses	0.06	0.08	0.02
Pretax Net Income	1.41	1.44	0.03
Income Taxes	-0.31	-0.33	-0.02
Net Income (ROA)	1.10	1.11	0.01

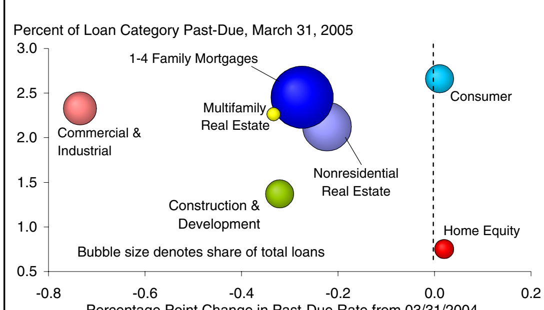
Source: FDIC. Merger-adjusted data for Kentucky's Community Institutions

Chart 4: Popularity of ARMs Increased Recently Despite Low Rates on Fixed-Rate Mortgages



Source: Federal Housing Finance Board

Chart 5: Delinquencies Trended Lower Across Most Lending Categories



Source: FDIC. Merger-adjusted data for Kentucky's Community Institutions

Kentucky at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.1%	0.5%	-0.4%	-1.7%	-0.1%
Manufacturing (15%)	0.4%	-1.2%	-4.0%	-7.4%	-2.7%
Other (non-manufacturing) Goods-Producing (6%)	4.3%	1.0%	-3.9%	-0.6%	-3.0%
Private Service-Producing (62%)	1.4%	1.4%	0.7%	-1.1%	0.5%
Government (17%)	-0.3%	-1.2%	0.1%	1.2%	1.8%
Unemployment Rate (% of labor force)	5.2	5.7	6.1	5.6	4.8

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	4.7%	3.4%	3.3%	3.2%
Single-Family Home Permits	-3.1%	23.4%	-5.7%	16.2%	-13.3%
Multifamily Building Permits	1.0%	-36.5%	72.4%	38.6%	-53.1%
Existing Home Sales	9.8%	7.8%	4.4%	2.2%	9.1%
Home Price Index	5.5%	4.5%	3.7%	3.4%	5.1%
Bankruptcy Filings per 1000 people (quarterly level)	1.73	1.72	1.75	1.68	1.65

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	232	243	250	257	263
Total Assets (in millions)	51,816	47,511	56,036	57,194	55,307
New Institutions (# < 3 years)	5	7	12	14	15
Subchapter S Institutions	46	50	43	40	34

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	2.08	2.27	2.51	2.30	2.40
ALLL/Total Loans (median %)	1.28	1.32	1.28	1.24	1.17
ALLL/Noncurrent Loans (median multiple)	1.87	1.72	1.70	1.46	1.57
Net Loan Losses / Total Loans (median %)	0.16	0.17	0.19	0.18	0.18

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	9.71	9.22	9.04	9.21	9.43
Return on Assets (median %)	1.11	1.12	1.12	1.13	1.11
Pretax Return on Assets (median %)	1.51	1.51	1.51	1.55	1.52
Net Interest Margin (median %)	4.24	4.23	4.19	4.20	4.22
Yield on Earning Assets (median %)	7.16	7.15	7.30	7.54	7.86
Cost of Funding Earning Assets (median %)	2.91	2.92	3.09	3.29	3.65
Provisions to Avg. Assets (median %)	0.19	0.19	0.21	0.20	0.20
Noninterest Income to Avg. Assets (median %)	0.68	0.66	0.68	0.66	0.65
Overhead to Avg. Assets (median %)	3.03	3.00	2.99	2.96	2.95

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	67.9	66.0	65.4	65.3	66.7
Noncore Funding to Assets (median %)	21.2	20.5	19.8	20.2	20.0
Long-term Assets to Assets (median %, call filers)	19.6	21.4	20.1	18.4	17.3
Brokered Deposits (number of institutions)	44	40	38	37	41
Brokered Deposits to Assets (median % for those above)	3.8	3.0	1.7	1.2	0.7

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	55.2	54.1	58.9	64.5	62.7
Commercial Real Estate	163.3	153.4	150.3	143.2	130.8
Construction & Development	26.2	21.4	19.6	18.5	20.0
Multifamily Residential Real Estate	5.4	5.4	4.8	4.2	3.7
Nonresidential Real Estate	115.9	121.7	114.3	109.2	97.4
Residential Real Estate	282.1	285.2	281.1	276.6	276.7
Consumer	53.8	62.6	73.0	76.1	79.8
Agriculture	34.2	39.8	40.3	35.8	40.2

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Louisville, KY-IN	51	19,335	< $250 million	193 (83.2%)
Lexington-Fayette, KY	34	6,502	$250 million to $1 billion	33 (14.2%)
Huntington-Ashland, WV-KY-OH	28	3,453	$1 billion to $10 billion	6 (2.6%)
Clarksville, TN-KY	15	2,208	> $10 billion	0 (0%)
Owensboro, KY	14	1,966		